

COMPLIANCE DIVISION

HEADQUARTERS PERSONNEL – NASHVILLE

Mike Igney, Assistant Commissioner
 Chris Adams, Chief Administrator
 Beau Barker, Project Manager
 Christy Beadle, Financial Analyst
 Wes Martin, Financial Analyst

The **Compliance Division** is responsible for the licensing and regulatory supervision of the following types of financial institutions operating in Tennessee:

- Industrial Loan & Thrift Companies
- Insurance Premium Finance Companies
- Residential Mortgage Lenders, Brokers and Servicers
- Check Cashing Companies
- Deferred Presentment Service Companies
- Money Transmitters
- Title Pledge Lenders

Mortgage licensees and registrants are also responsible for the registration with the Department of all Mortgage Loan Originators conducting business in Tennessee. The Department is responsible for the regulatory oversight of the institutions with which the Mortgage Loan Originators affiliate.

APPLICATIONS

Mortgage, Industrial Loan & Thrift and Insurance Premium Finance

Carl Scott, CFSA, Director
 David Gaines, Financial Analyst
 Melody Johnson, Financial Analyst

Check Cashing, Deferred Presentment, Money Transmitter, and Title Pledge

Stephen Henley, CPA, Director
 Tat Mysayphonh, Financial Analyst

EXAMINATION PERSONNEL

Brian Williams, Regional Manager
 Nicole Chamblee, Supervisor
 Chad Haney, Supervisor
 Jack Lay, Supervisor
 Patrick Somers, Supervisor
 Cathy Wilkerson, Supervisor
 Frank Barnes, CFSA
 Kamela Settles
 Brian Caroland
 Michael Cranor
 Gene Smith, CFSA
 Stephanie Dunn
 Joshua Evans
 Elizabeth Harrell
 Kevin Hicks
 Robert Hornbeak
 Marcia Jacks

Will Justice
 David Kelly
 Alisa Logan
 Rich Regan
 Kerry Rial
 Marilyn Schroepfel, CFSA
 Robert Campbell
 Keith Sharp
 James Simmons
 Robert Doyle
 Calvin Stout
 James Waterman
 Michael Wiggins
 Dennis Woodmore, CFSA
 James Worley
 Robert Walker

COMPLIANCE DIVISION

REGULATORY OVERSIGHT

Through a comprehensive examination program, regulated institutions are subject to periodic examination by the Division's compliance examiners. The Compliance Division's examinations are designed to test and enforce compliance with Tennessee laws, as well as certain Federal regulations. These laws were written in order to protect the consumer by limiting the amount of interest, loan charges and insurance charges that can be assessed as well as providing for specific disclosures to the consumer regarding loan provisions. The compliance examiners also investigate consumer complaints and allegations of consumer fraud and usury.

In January 2004, the Compliance Division employed fourteen loan examiners responsible for the on-site examination of all regulated, non-depository financial institutions in Tennessee. Because of the Department's commitment to increase regulatory compliance through the examination of non-depository financial institutions, twenty-one additional loan examiner positions were added to the Division. The result is that exam penetration has been increased across industry types but particularly in the mortgage arena.

As a result of on-site examination, and other regulatory oversight of non-depository financial institutions, the Department returned refunds in excess of \$1.5 million to consumers for the fiscal year ending June 30, 2007. Additionally, the Department was an active participant in a multi-state settlement reached with Ameriquest in 2006. The settlement returned an additional \$2,826,633.59 to 3,649 Tennessee consumers in 2007.

MILESTONES AND ACCOMPLISHMENTS

- **2005 Amendments to the Tennessee Title Pledge Act ("Act")**

Beginning November 1, 2005, title pledge lenders in Tennessee became subject to regulatory oversight by the Department. At that time, the Department successfully implemented a new program to license and regulate title pledge lenders. As of June 30, 2007, 758 title pledge lender locations were licensed by the Department.

In February of 2006, the Department provided a written report to the General Assembly. The report reviewed practices and certain financial information about the industry as it was prior to the amendments to the Act. In February 2007, the Department provided the General Assembly a supplemental report that updated financial information on the industry and the status of licensing and examination at that time.

- **Tennessee Home Loan Protection Act of 2006 ("Act")**

The Department has implemented the provisions of, and examined for compliance with, the Tennessee Home Loan Protection Act which became effective January 1, 2007. The Act places limitations and restrictions on the making of high-cost home loans including defining high cost home loans; placing a cap on the points and fees that can be financed by the borrower; prohibiting the practice (known as "flipping") of making a high-cost home loan within 30 months of the making of an existing home loan when no reasonable benefit exists for the borrower; barring lending without regard for repayment ability; excluding prepayment penalties in certain instances; requiring disclosures to borrowers on available credit counseling; and granting the Department of Financial Institutions regulatory authority (including rulemaking and examination authority) and the power to issue cease

and desist orders, assess civil money penalties up to \$10,000 per violation and require restitution to borrowers.

- **Guidance on Nontraditional Mortgage Product Risks**

On October 4, 2006, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the National Credit Union Administration published final guidance on nontraditional mortgage product risks ("guidance"). The guidance was applicable to all depository institutions.

The Conference of State Bank Supervisors and American Association of Residential Mortgage Regulators developed parallel guidance for state regulated non-depository institutions which essentially mirrored the federal guidance.

The Department adopted the guidance and issued a Bulletin to the industry on March 30, 2007. The Department Bulletin and the guidance may be viewed and downloaded for printing from the Department's website at <http://state.tn.us/tdfi/compliance/bulletins/C-07-1.html>.

- **Statement on Sub-prime Mortgage Lending**

On June 29, 2007, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the National Credit Union Administration released the Statement on Sub-prime Mortgage Lending ("Statement"). The Statement was intended to identify and address the risks associated with certain sub-prime mortgage products and lending practices.

On July 17, 2007, the Conference of State Bank Supervisors and American Association of Residential Mortgage Regulators issued a similar statement intended for the non-depository institutions making mortgage loans.

The Department adopted the Statement and issued a Bulletin to the industry on September 6, 2007. The Department Bulletin and the Statement may be viewed and downloaded for printing from the Department's website at <http://state.tn.us/tdfi/compliance/bulletins/C-07-4.html>.

- **Mortgage Exam Guidance ("MEGS")**

The Conference of State Bank Supervisors and American Association of Residential Mortgage Regulators are in the process of developing "Mortgage Exam Guidance" ("MEGS") to serve as a template for use by state regulators in examination of both the Guidance on Nontraditional Mortgage Product Risks and the Statement on Sub-prime Mortgage Lending. In the interim, the Department has developed its own examination guidance and issued it to examination personnel. The Department is conducting fact-finding, through the exam function, to determine the extent to which the industry is applying the "best practices" suggested in both the Guidance on Nontraditional Mortgage Product Risks and the Statement on Sub-prime Mortgage Lending.

- **Exam Sharing Partnership**

The Department has entered into an agreement with the state of North Carolina under

COMPLIANCE DIVISION

which examination findings on licensed and regulated mortgage institutions may be shared. An exam sharing partnership with other states will broaden the Department's scope of examination and increase exam penetration of the mortgage industry.

INDUSTRIAL LOAN AND THRIFT COMPANIES

Consumer loan companies operate under the "Industrial Loan and Thrift Companies Act," codified at T.C.A. Title 45, Chapter 5. The stated purpose of the Act is to allow citizens to have the services of regulated lending institutions at rates and charges reasonably commensurate with economic realities. Since 2001, legislation has been enacted that requires companies registered under this Act to secure a surety bond. The bonding requirements are as follows: If the applicant proposes to make loans secured by a mortgage, the surety bond or letter of credit shall be in the amount of \$200,000. For all other applicants, the bond or letter of credit shall be in the amount of \$50,000. Only one bond or letter of credit is required for any registrant, irrespective of the number of employees or offices of such registrant.

Registration

To obtain a certificate of registration, an applicant must maintain a net worth of at least \$25,000 and demonstrate sufficient character to command the confidence of the public and warrant the belief that the applicant will operate its business lawfully and fairly. As of June 30, 2007, there were 885 locations licensed under the Act.

Examinations

For fiscal year ending June 30, 2007, the Department conducted 919 examinations that resulted in refunds of \$350,013 to 2,543 consumers of the state. Special examinations are conducted as needed as a result of complaints filed with the Department's Consumer Resources Division.



INDUSTRIAL LOAN AND THRIFT COMPANIES

Composite Annual Report

(Year Ending December 31, 2006)

Number of Offices Included in this Report	779
Number of Employees in State at Year-End	2,939

REGULATED ENTITIES PROFIT PERCENTAGE

RATE OF RETURN

Average Net Receivable	\$3,271,086,454
Net Income	\$77,304,812
Rate of Return	2.36%

ANALYSIS OF CHARGES ON LOANS

Charges Collected and/or Earned	\$605,290,814
Average Monthly Rate Collected	1.54%

ANALYSIS OF EXPENSE PER ACCOUNT

Average Number of Accounts Outstanding	532,974
Total Expenses	\$521,344,223
Average Monthly Expense per Account	\$81.51

STATEMENT OF INCOME AND EXPENSES

Total Operating Income	\$639,226,735
Total Expenses before Income Taxes	\$521,344,223
Income before Taxes	\$117,882,512

OTHER INFORMATION

Number of Loans Made During the Year	1,027,942
Dollar Volume of Loans Made During the Year	\$2,227,276,496
Bad Debts- Dollar Amount	\$147,906,059
Bad Debts- Number of Accounts	82,820

COMPLIANCE DIVISION

INDUSTRIAL LOAN AND THRIFT COMPANIES
(Year Ending December 31, 2006)

SIZE OF DISTRIBUTION

	Number	Net Amount
\$300 or less	194,073	\$ 49,743,181
\$301 to \$500	189,695	\$ 83,161,681
\$501 to \$1,000	236,604	\$ 178,971,781
\$1,001 to \$1,500	99,350	\$ 114,934,062
\$1,501 to \$2,000	27,956	\$ 43,413,480
\$2,001 to \$2,500	38,815	\$ 62,133,275
\$2,501 to \$3,000	22,712	\$ 47,162,533
\$3,001 to \$5,000	67,001	\$ 168,419,725
\$5,001 to \$10,000	73,405	\$ 504,911,733
In excess of \$10,000	43,691	\$ 944,771,726
TOTAL	993,302	\$2,197,623,177

DISTRIBUTION MADE BY TYPE OF SECURITY

	Number	Net Amount
Household Goods	418,579	\$ 440,222,129
Automobiles	95,982	\$ 303,688,570
Household Goods and Automobiles	110,484	\$ 151,925,768
Unsecured	311,041	\$ 658,648,810
Co-maker Endorsed or Guaranteed	14,198	\$ 65,829,266
Real Estate	17,904	\$ 531,545,277
Other	55,050	\$ 69,764,610
TOTAL	1,023,238	\$2,221,624,430

COMPLIANCE DIVISION

INSURANCE PREMIUM FINANCE COMPANIES

The activities of Premium Finance Companies are governed by the "Premium Finance Company Act of 1980", codified as T.C.A. Title 56, Chapter 37. "Premium Finance Company" means a person engaged in the business of entering into premium finance agreements or acquiring premium finance agreements from other premium finance companies. "Premium finance agreement" means an agreement by which an insured, or prospective insured, promises to pay to a premium finance company the amount advanced, or to be advanced under the agreement to an insurer or to an insurance agent or producing agent in payment of premiums of an insurance contract, together with interest and a service charge as authorized and limited by this Chapter.

Licensing

To obtain a license, an applicant must, pursuant to T.C.A. § 56-37-104(b), be competent and trustworthy, act in good faith, have a good business reputation, experience, training or education in this business. Furthermore, if the applicant is a foreign or domestic corporation, LLC, or limited partnership, it must be authorized to conduct business in this state. As of June 30, 2007, there were 74 companies licensed under the Act.

Examinations

The Department conducted 5 examinations for the period ending June 30, 2007.

RESIDENTIAL MORTGAGE LENDERS, BROKERS AND SERVICERS

The activities of Residential Mortgage Lending, Brokering, and Servicing companies are governed by the "Tennessee Residential Lending, Brokerage and Servicing Act of 1988", codified as T.C.A. Title 45, Chapter 13. T.C.A. § 45-13-103(a) expands this further by stating "no person shall act as a mortgage lender, mortgage loan broker, mortgage loan servicer, or mortgage loan originator in this state without first complying with the applicable licensing or registration requirements under this chapter." Certain companies may be exempt under criteria explained in T.C.A. § 45-13-103. If the applicant proposes to make or service mortgage loans, a surety bond or irrevocable letter of credit shall be in the amount of \$200,000. For all applicants whose activities are limited to the brokering of mortgage loans, the surety bond or irrevocable letter of credit shall be in the amount of \$90,000. Only one bond or letter of credit is required for any licensee, irrespective of the number of employees or offices of such licensee.

License/Registration

To obtain a license or certificate of registration, an applicant must maintain a net worth of at least \$25,000 and demonstrate sufficient character to command the confidence of the public and warrant the belief that the applicant will operate its business lawfully and fairly. As of June 30, 2007, there were 1,577 companies licensed or registered under the Act. Additionally, with passage of amendments to the Residential Mortgage Lending, Brokerage and Servicing Act during the 2004 session of the General Assembly, the Department began registering individual mortgage loan originators effective January 1, 2005. As of June 30, 2007, there were approximately 17,000 mortgage loan originators actively registered.

Examinations

For fiscal year ending June 30, 2007, the Compliance Division conducted 231 examinations of mortgage licensees/registrants that resulted in refunds of \$979,352 to 2,459 consumers. Special examinations are also conducted as a result of consumer complaints forwarded from the Department's Consumer Resources Division.

CHECK CASHING COMPANIES

The activities of Check Cashing Companies are governed by the "Check Cashing Act of 1997" codified as Tennessee Code Annotated (T.C.A.) Title 45, Chapter 18. Retailers who cash checks incidental to their retail operations are exempt from the Act if their compensation for cashing checks does not exceed five percent of their gross receipts. See T.C.A. § 45-18-103(5).

Licensing

To obtain a check cashing license, an applicant must maintain a minimum net worth of \$25,000 per location and demonstrate sufficient character and experience to command confidence of the public and warrant the belief that the applicant will operate its business lawfully and fairly. As of June 30, 2007, there were 568 licensed check casher locations in Tennessee.

Examinations

Examinations of licensed check cashers are conducted pursuant to T.C.A. § 45-18-113. For the fiscal year ending June 30, 2007, the Compliance Division of the Department performed 397 check cashing examinations resulting in refunds of \$1,657 to 290 consumers.

DEFERRED PRESENTMENT SERVICE COMPANIES

The activities of Deferred Presentment Services Companies are governed by the "Deferred Presentment Services Act" codified as Tennessee Code Annotated (T.C.A.) Title 45, Chapter 17.

Licensing

To obtain a deferred presentment services license, an applicant must maintain a minimum net worth of \$25,000 per location and demonstrate sufficient character and experience to command confidence of the public and warrant the belief that the applicant will operate its business lawfully and fairly. As of June 30, 2007, there were 1,499 Deferred Presentment locations licensed in Tennessee.

Examinations

For fiscal year ending June 30, 2007, the Department's Compliance Division conducted 1,504 examinations of deferred presentment offices. Typically, the Department's compliance examiners review a random sample of the licensee's transactions by looking at the fees charged and the disclosures given to the consumers. As a result, licensees made

COMPLIANCE DIVISION

total refunds of \$40,787 to 1,064 consumers for charging excessive or unauthorized fees pursuant to T.C.A. § 45-17-115.

Annual Report Information

By September 1st of each year, licensees are required by T.C.A. § 45-17-119 to file with the Commissioner of Financial Institutions an Annual Report covering the licensee's business activities as of the close of business on June 30. These reports include a balance sheet, statement of income and expense, as well as other statistical data consistent with generally accepted accounting principles. Below is a recapitulation of the 2007 annual reports for the purpose of reflecting the general results of the operations for the year ending June 30, 2007.

Annual Report Information for Fiscal Year Ending June 30, 2007

The following tabulation represents aggregate information from reports filed by 389 licensed companies. The Department did not require an annual report from companies that opened after June, 2007.

Total Assets	\$916,001,089
Total Liabilities	\$585,073,366
Net Worth	\$330,927,723

As of June 30, 2007, the average assets of a Deferred Presentment company operating in Tennessee were \$2,342,713. Seventy-one companies reported assets greater than \$500,000; 178 companies had assets of between \$100,000 and \$500,000; and the remaining 140 showed total assets of less than \$100,000. As with many of the small companies, funding for the business is supplied in part by the owners with the average owner equity being 36 percent.

Statement of Income and Expenses

The following information was compiled from the statements of income and expenses for the period of July 1, 2006 to June 30, 2007.

Total Operating Income	\$131,985,025
Salary Expense	\$33,865,936
Bad Debt Expense	\$13,655,064
Net Income (After Tax)	\$12,418,538

Of the 389 reporting companies, 99 reported operating losses and 45 reported net income of over \$100,000 for the period ending June 30, 2007. The average company made a profit of \$31,924.

Salaries are a major company expense, amounting to about 26 percent of total operating income. The average salary expense for each company was \$87,059.

Losses on receivables constitute another major industry expense. Bad debt expense represented approximately 10 percent of total operating income.

Effective June 7, 2005, the return check fee authorized under T.C.A. 47-29-102 increased from \$25.00 to \$30.00. The Deferred Presentment Services Act allows licensees to

assess a handling charge, in accordance with that which is authorized under T.C.A. 47-29-102, if a check is returned from a payer financial institution due to insufficient funds, stop payment order or closed account. From the 2007 annual reports, 74 percent or 286 companies collected total handling charges of \$759,338 for fiscal year ending June 30, 2007.

As of June 30, 2007, the industry made a return on assets of 1.4 percent based on total assets and a return on equity of 3.75 percent.

Transactional Data

The following transactional data was reported for the period ending June 30, 2007:

Number of transactions	5,724,827
Dollar amount of transactions during the year	\$691,499,511.00
Average size of receivable transactions	\$116.38

Number of transactions by size of check:

\$1 - \$150:	552,090
\$151 - \$250:	4,534,855
\$251 - \$500:	637,882

MONEY TRANSMITTERS

The activities of Money Transmitter companies are governed by the "Tennessee Money Transmitter Act of 1994", codified as T.C.A. Title 45, Chapter 7. There are exemptions that apply to certain government agencies, as well as business organizations. See T.C.A. § 45-7-204.

Licensing

Each applicant for a license must demonstrate, and each licensee must maintain, a net worth of not less than \$100,000 computed according to generally accepted accounting principles. Persons transmitting, or proposing to transmit, money shall have an additional net worth of \$25,000 per additional location or agent located in Tennessee, as applicable, to a maximum of \$500,000. The applicant must demonstrate such experience, character, and general fitness as to command the confidence of the public and warrant the belief that the business will be operated lawfully and fairly. As of June 30, 2007, there were 55 licensed money transmitters.

Examinations

For fiscal year ending June 30, 2007, the Department's Compliance Division conducted 2 examinations of money transmitter offices. Examinations of money transmitters are conducted pursuant to T.C.A. § 45-7-214. The Commissioner may accept, in lieu of an on-site examination, the examination report of an agency of another state, or a report prepared by an independent accounting firm, and reports so accepted are considered, for all purposes, as an official report of the Commissioner.

COMPLIANCE DIVISION**TITLE PLEDGE LENDERS**

The activities of Title Pledge Lenders are governed by the "Tennessee Title Pledge Act", codified as T.C.A. Title 45, Chapter 15.

Licensing

To obtain a title pledge lender license, an applicant must maintain a minimum net worth of \$75,000 per location and demonstrate sufficient character and experience to command confidence of the public and warrant the belief that the applicant will operate its business lawfully and fairly. As of June 30, 2007, there were 758 licensed title pledge lenders.

Examinations

For fiscal year ending June 30, 2007, the Department's Compliance Division conducted 583 examinations of title pledge lender offices resulting in refunds of \$184,167 to 1,664 consumers.

